



# MISSOURI TAX CREDIT REVIEW COMMISSION

## Tax Credit Review Commission Report Summary February 8, 2011

### Co-Chairs:

Senator Chuck Gross \*  
Steven J. Stogel

### Council Members:

Sen. Matt Bartle  
Sen. Jolie Justus  
Sen. Robin Wright-Jones  
Rep. Tim Flook  
Rep. Sam Komo  
James Anderson  
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Mark Gardner  
Luana Gifford  
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Troy Nash  
Peter Levi  
Melissa Randol  
Tom Reeves  
Penney Rector  
Russ Still  
Craig Van Matre  
Ray Wagner  
Todd Weaver  
Shannon Weber  
Mike Wood  
David Zimmermann

\*Not now serving

### **Tax Credit History in MO:**

- First tax credit enacted in 1973 (Senior Citizen's Property Tax Credit).
- Today, 61 tax credit programs operating in MO.

### **Cost:**

- 1998-2010 tax credit redemptions have grown from \$102.7M to \$521.5M.
- That growth is 407.9% over the term averaging 17.4% per year.
- 1998-2010 Net General Revenue collections have grown from \$5.9B to \$6.7M.
- That growth equates to 13.9%.
- Redemptions as a percent of Net General Revenue have grown from 1.7% to 7.7%.

### **Charge of the Tax Credit Review Commission:**

- Review the state's tax credit programs and make recommendations for efficiency and enhanced return on investment. Nixon: "Tax credits work best when they deliver on what they were intended for-putting people to work, boosting development, and building strong communities".
- 27 business, community and legislative leaders appointed to the Committee.

### **Approach to Task:**

- Formed 10 committees to analyze the credits and make recommendations to full Commission.
- Categorized credits by topic, industry and beneficiary:
  - Global Issues Committee – covered overarching issues related to all tax credits
    - Budget Savings and Certainty
    - Public and Private Benefits
    - Accountability
    - Efficiency
  - Agriculture and Environment
  - Banking and Insurance
  - Distressed Communities
  - Economic Development
  - Historic Preservation
  - Low Income Housing
  - Property Tax
  - Social Contribution Programs
  - Tax Law

- Conducted public hearings throughout the state receiving more than 24 hours in public testimony.
- Established website at <http://terc.mo.gov> to publish minutes, transcripts, reports, supporting documentation, and resources

#### **Key Findings:**

- Recommendations to eliminate or not reauthorize 28 tax credit programs that have outlived their usefulness and do not create a justifiable benefit in relation to their cost to taxpayers;

##### **Programs Eliminated/Consolidated/Not Reauthorized**

Wine and Grape Producers	New Enterprise Creation
Charcoal Producers	Research Tax Credit
Wood Energy	Seed Capital
Self Employed Health Insurance	Transportation Development
Brownfield Jobs and Investment	Dry Fire Hydrant
Rebuilding Communities	Enterprise Zone
Incubator	New Generation Cooperative/Ag Product
Film Production	New Markets
Rolling Stock	Land Assemblage
Brownfield Demolition	Residential Dwelling
SBA/USDA Loan Guarantee Fee	Disabled Access
Capital Tax Credits	Peace Officer Surviving Spouse
Community Development Bank	Family Development Account
Certified Capital Company	Health Care Access Fund

- Recommendations to improve efficiency of 30 tax credit programs to provide a greater return on investment for taxpayers;

#### **Economic Development Tax Credits**

- Adopt guiding principles for all economic development incentives:
  - Positive return on investment within defined time period
  - Focus on primary jobs
  - Reward higher-paying jobs, benefits in targeted industries
  - Consider local participation
  - Flexibility
  - Simplicity
  - Up-front financing
  - Entitlement & discretionary components
  - Broad applicability (urban/rural, small/large businesses)
- Enact changes to existing programs to better effectuate guiding principles:
  - BUILD – Lower eligibility threshold to enable greater participation;
  - MQJ – Up-front financing, targeted industries, lower eligibility thresholds temporarily during economic recovery;
  - EEZ – Up-front financing, targeted industries, flexible definitions;
  - MDFB Infrastructure—Reduce credit amount from 50% to 35%
  - DTC – Restructure to make more efficient
  - Business Facility—Expand eligibility
- In lieu of existing programs, enact a unified economic development incentive to combine existing programs and better effectuate guiding principles.
- Establish an Angel Tax Credit program utilizing cap space from Film Credit.

**Social/Contribution Tax Credits**

- Reduce credit values from 70% and 50% to 50% and 35%, respectively;
- Increase donor pool with broader definition of taxpayer, transferability and higher individual limits;
- Impose 10% transfer “charge”;
- Specific recommendations regarding Special Needs Adoption, Food Pantry, Family Development, Healthcare Access Fund, small programs.

**Distressed Communities**

- Improve Brownfield Remediation and Neighborhood Preservation programs.

**Agriculture and Environment**

- Improve Qualified Beef, Alternative Fuel Stations, New-Gen/Ag. Product, Family Farm Breeding Livestock programs.

**Historic Preservation**

- Reduce annual cap from \$140 million to \$75 million;
- Reduce cap on non-income producing single-family owner occupied to \$50,000, and exclude such projects where purchase price exceeds \$150,000;
- Prohibit stacking Historic Credits with Neighborhood Preservation or State Low Income Housing Credits, with exceptions for housing projects using tax exempt bonds only (without the State Low Income Housing 4% Credit).
- Prohibit tax credits from being issued on any qualified rehabilitation expenses that have been incurred but not paid (e.g. accrued developer fees).

**Low Income Housing**

- Reduce the number of credits issued by reducing the term of the credit to five years from the current 10-year term, with potential future reduction to a 3-year and ultimately 1-year term;
  - Impose a cap for the 9% credit equal to \$16 million per year over a 5-year term (with state law tax change);
  - Eliminate the 4% credit used in conjunction with tax exempt bonds;
  - Allow the full project to earn tax credits from the point the first unit of low income housing is leased;
  - Encourage MHDC to exercise additional due diligence in the evaluation of low income housing projects including maximizing developer participation, minimizing state subsidy, and assuring per unit cost reasonableness.
- Recommendations that no tax credits be subject to an annual appropriation process, but instead that tax credits be subject to review by the General Assembly according to an orderly sunset schedule;
- Recommendations that where appropriate and feasible the General Assembly impose an annual cap on all programs currently lacking a statutory cap to limit the total amount of tax credits that may be authorized annually to gain additional budget certainty for the state;

**Programs with New Caps Imposed (none previously)**  
Brownfield Remediation

- Recommendations for changes to state and federal law that will improve the efficiency and overall value of Missouri's tax credit programs to both the State and the users of the programs;

**Programs with Partial Eligibility Eliminated**  
Senior Citizens Property Tax Credit (renters)

**Programs with Reduced Caps**  
Neighborhood Preservation  
Historic Preservation  
Low Income Housing

**New Program**  
Angel Tax Credit

- Recommendation to develop a voluntary buy-back or exchange of outstanding tax credits for less than their face value in order to reduce the State's overall tax credit liability, which is currently estimated in excess of \$1 billion in outstanding credits that could be redeemed in Fiscal Years 2012 to 2022.

#### **Additional Global Issue Recommendations:**

- **Monetization or "Buy-Back" of Tax Credits**
  - The Commission recommends that the General Assembly consider implementation of the following two options for reducing outstanding tax credit liability to achieve an overall budgetary savings to the State.
  - Exchange of Outstanding Low-Income Housing Tax Credits.
  - Dutch/Reverse Auction.
- **Program Elimination/Consolidation/Reduction**
  - The Commission recommends that the General Assembly and Revisor of Statutes take any actions necessary to repeal the tax credits assigned to the Global Issues, which have expired or otherwise outlived their usefulness, in a manner that would not impact the redemption of any credits issued but not yet redeemed under these programs.
- **Return on Investment**
  - Economic Development Tax Credits should generate a positive return on investment, as measured using the REMI model.
- **Limits on Cost per Unit or Costs per Beneficiary**
  - The Department of Economic Development and the Missouri Housing Development Commission should monitor all projects for cost reasonableness and promulgate rules to create standards and guidelines for cost reasonableness.
- **Clawbacks**
  - The Commission recommends that strict statutory clawbacks to be enforced by the State in cases of non-compliance with program requirements be included in all tax credit programs currently lacking such provisions. The Commission recommends that all applicants for state incentives be required to enter into a contract with the agency administering the tax credit specifying standards of performance, program requirements, and penalties in the event of non-compliance.

**Sunset Provisions**

The Commission recommends that the General Assembly impose sunset provisions on any remaining tax credit programs. The Commission recommends the following sunset schedule for consideration by the General Assembly:

- 2 year sunset – Banking and Insurance Tax Credits
- 4 year sunset – Distressed Communities, Economic Development, Agriculture and Environment Tax Credits
- 6 year sunset – Historic Preservation, Low Income Housing, Social/Contribution